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Bookkeeping for a Small Business in Alberta

Number Eight of a Series

Alberta

TOURISM AND SMALL BUSINESS

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Bookkeeping for a Small Business in Alberta

This booklet is directed at people who plan on operating a business and doing their own bookkeeping. If you have started your business or anticipate doing so in the near future, we suggest you read and implement the enclosed ideas on how to keep bookkeeping records.

The system that we outline in the following pages is simple, yet one which is applicable to many different types of business. We recognize that each business is different and suggest that you read our system and see how it can be applied to your business. If you do not feel confident about following our system, you should seek help from a professional accounting or bookkeeping service.

Overall, our bookkeeping system will attempt to keep track of various transactions as they occur. In most businesses cash flows in every day, primarily through sales and this cash is then either used directly to pay expenses or is deposited in a bank and cheques are issued. Our system will keep track of these transactions and provide an accurate record of accounts payable, accounts receivable, bank balance, sales, and petty cash.

In order to make this system work for you, it is not necessary that you have extensive education or business experience. All that is required is your commitment to be thorough, to be accurate and to devote sufficient time each day to keep your bookkeeping records current.

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Alberta
TOURISM AND SMALL BUSINESS
SMALL BUSINESS DIVISION

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TOURISM AND SMALL BUSINESS OFFICES

Chapter One

Bookkeeping

WHAT IS BOOKKEEPING?

Bookkeeping can be simply defined as the recording of the transactions of a business. Many people who start businesses are unaware of the type of bookkeeping records that should be kept. It is the purpose of this booklet to outline a workable, yet simple system for you to maintain the necessary records as you conduct business in Alberta.

After you have read and studied this booklet you will not be an accounting expert nor will you be able to prepare your own financial statements. Instead, you will keep records in such a manner that you will have internal control over your affairs plus your records will be in such shape that an accountant can quickly and at lowest cost produce accurate financial statements.

WHY IS BOOKKEEPING NECESSARY?

From time to time, the owners of a business will want to know how much money has been made or lost during a certain period. In addition, an overview of the financial position of the business is required in order that its assets, liabilities and owner's equity can be examined.

Perhaps equally as compelling a reason to maintain proper records is that the Income Tax Act, Sec. 150 (1), states that both an income statement and a balance sheet must be filed with the Minister each taxation year.

Bookkeeping is therefore inescapable. The business person who turns it into a useful management tool will be better prepared to make decisions and ultimately more successful than those who do not.

FINANCIAL STATEMENTS

THE RESULTS OF BOOKKEEPING

From the various records that will be described in the following chapters, it will be possible to prepare what are referred to as financial statements.

Financial statements consist of two documents, a balance sheet which shows the financial position of the business at the time of the report, and an operating statement which shows how it arrived at this position.

A document which is rapidly gaining in importance is the statement of change in financial position. Accountants, bankers and management are placing increasing emphasis on this statement which shows how changes in working capital occured over a specified time period. A statement of change in financial position is not a requirement of the Tax Act but management is increasingly using it as a tool to better profits and cash flow. You should discuss this with your accountant and weigh the benefits against the cost of having such a statement prepared.

BALANCE SHEET

A Balance Sheet is a snapshot of your business at a particular moment. It is based upon the accounting equation:

Assets = Liabilities + Owner's Equity

A very simple example of a balance sheet might be:

Any Alberta Business
Balance Sheet
at December 31, 1984

Assets		**Liabilities**	
Cash	$ 1,200	Bank note payable	$ 6,000
Inventory	13,500	Accounts payable	5,500
Automobile	3,100		
		Equity	
		Owner's equity	6,300
	$17,800		$17,800

Thus we see the equation balances and the financial situation is disclosed, at least in part.

INCOME STATEMENT

To complete the financial statement picture, it is necessary to prepare an operating statement. This is usually called a statement of profit or loss, income and expense statement or simply income statement.

Regardless of the name, it discloses how the business did *over a specified time period.*

Any Alberta Business
Income Statement
For the year ended December 31, 1983

Sales		$66,000
Cost of Sales		25,200
Gross Profit		40,800
Expenses		
Rent	$ 9,600	
Advertising	2,100	
Interest	900	
Wages	21,500	
Travel	400	
		34,500
NET PROFIT		$ 6,300

The profit retained in the business is reflected back in the balance sheet in the owner's equity section. Thus the two statements are intertwined and together complete the financial picture of a business.

ACCOUNTANTS

WHAT ARE ACCOUNTANTS?

Most businesses have their financial statements prepared by a professional accountant. Few business persons feel comfortable in preparing financial statements either for internal use or tax reporting purposes. Professional accountants are constantly dealing with tax and accounting matters and, therefore, due to the

complexities of today's business world, businesses hire an accountant to prepare the statements and make up the income tax return.

Some accountants have professional degrees, others do not.

In Alberta, chartered accountants (C.A.) certified general accountants, (C.G.A.) and registered industrial accountants (R.I.A.) maintain associations which govern conduct, set uniform exams and keep members informed of developments within the industry.

We suggest that, unless you are well qualified through education or experience you leave the preparing of financial statements to the experts. However, how much work he does and consequently the amount of his fee depends largely on you.

Most accountants do not want to do your bookkeeping because they simply do not have the staff or the time to make the monotonous entries. Your accountant will do it if necessary. However, you will be billed on the amount of time he spends on your account and his rate is the same whether he is doing the financial statement or the day-to-day bookkeeping.

For this reason, it will pay you to do as much of the preliminary work as you can. Most accountants will actually prefer that you do the bookkeeping and allow them to get on with the highly skilled business of preparing financial statements and tax planning. Not all think this way but most would and a simple conference with your accountant will outline to you the types of records that he or she want you to keep and how they should be maintained.

Most accountants prefer to work in their own offices and expect you to deliver books and papers to them and pick them up when they have been processed. Remember the rule of thumb that your accountant's time is your money. Anything you can do which will require him to spend less time working on your behalf will lessen your accounting bill.

HOW MUCH DO ACCOUNTANTS COST?

As with any business operating under a free enterprise system, there is a great variety of services and rates. Existing rates for an accountant's time in Alberta, currently range from $50.00 to $150.00 per hour depending upon who you talk to and the level of expertise required. The important thing is that you discuss fully with your chosen accountant what his rates are and as well receive a ball park figure for the anticipated charge in preparing your financial statements. If you are not satisfied, shop around. You are the buyer of the service, therefore, be aware of the alternatives.

Remember too that the cheapest is not necessarily the best in the long run. If you speak to friends or business acquaintances, they will quite often refer their accountant if they feel they are receiving proper service. If you are to make the best use of accountants, in discussion with them, you should focus on your special concerns rather than deal in generalities. Let your accountant know that you are concerned with tax planning, financing, or perhaps cash flow and the results of your conversation will be much better than if you talk about things in general.

HOW OFTEN SHOULD FINANCIAL STATEMENTS BE PREPARED?

Only as often as management feels they are required. The very

minimum would be once a year as prescribed by the Income Tax Act, however, most businesses prefer statements more often than that. Monthly, quarterly and semi-annual statements are common for many businesses, always keeping in mind that the benefits obtained by management, from reading the statements, must be balanced against the cost of having them prepared.

Most businesses should have statements prepared on at least a semi-annual basis. This is because any trends, good or bad, that are being developed will show up in financial statements. By leaving it longer than semi-annually, it might be too late to make any necessary corrections before the business suffers irreparably.

Remember, financial statements have a limited time value. In today's business world things happen fast and a financial situation can be greatly altered in just a few weeks or even days. For this reason, lending institutions will consider only statements they feel are "current" and correctly reflect the financial state of affairs.

Keep your records up-to-date and get the information into your accountant's hands as soon as possible. This makes the financial statements much more relevant to the reader and is a reflection on your competence as a business person.

If you are starting a business call your accountant in early so that you know what sort of financial records are to be kept and he knows when financial statements are to be prepared.

Chapter Two

Records

WHAT RECORDS SHOULD BE KEPT?

As you organize a bookkeeping system for your business there are four types of ledgers or forms that you will use. These are:
1) Daily cash sheet
2) Accounts receivable ledger
3) Accounts payable ledger
4) Synoptic ledger

Most retail, wholesale and service businesses make sales and receive cash each day.

If your business makes sales on a daily basis, then some sort of control must be placed on the cash received. The term 'cash' includes not just currency but cheques, money orders and credit card slips.

1) THE DAILY CASH SHEET

The proper control of cash is of absolute importance if the business is to be successful. Improper cash records will result in an accounting headache. It also could lead to overpaid income tax and employee dishonesty. Sloppy cash habits may prove to be a temptation someone may find unbearable. It is your money, learn how to protect it.

Sales should be recorded on the daily cash sheet, a sample of which follows as Exhibit "A":

EXHIBIT "A"
ANY ALBERTA BUSINESS
DAILY CASH SHEET

Day: Thursday Date: Aug. 13 Year: 1984

A. Opening Balance		100.00
Cash Collections		
Gross Sales	+ 425.00	
Accounts Receivable Collected	+ 240.00	
Other Income Collected	+ 10.00	
Less: Sales Returns	− 15.00	
Sales on Accounts Receivable	− 110.00	
B. Total Cash Received Today		550.00
C. Total Cash Available (A + B)		650.00
Cash Disbursements		
Bank Deposit	426.00	
Freight	5.00	
Purchases	120.00	
Accounts Payable	~~0~~	
Miscellaneous	~~0~~	
D. Total Cash Paid Out		551.00
E. Opening Cash Float for Tomorrow		100.00
F. Total Cash Accounted for (D + E)		651.00
Cash Short or (Over) (C − F)		(1.00)

From this it can be seen that all of the cash which flows into the business each day is accounted for. Any discrepancy must be acceptable by you, the owner. If there are consistently major overages or shortages, then management must find the reason.

By studying Exhibit "A" it can be seen that total cash available of $650 is arrived at by adding the opening float to cash

sales and other cash collected. The cash was then either put in the bank ($426) or used for various expenses and purchases. A $100.00 float was kept on hand for the start of tomorrow's business resulting in a cash overage of $1.00. The reason that this is considered to be an overage is because $650.00 came in and $651.00 can be accounted for as going out, yet the opening position of a $100.00 float has not changed. We can account for $1.00 more than we should be able to, thus we are 'over'. Conversely, if we had taken in $650.00 yet could only account for $648.00, we would write it up as being $2.00 short.

If you do a daily cash sheet you will account each day for your cash. Don't get excited if each day you are only out small amounts. Major discrepancies are called immediately to your attention and any on-going problem with cash will have to be eliminated before it becomes even more serious.

The frequency of bank deposits will depend upon the amount of cash that is generated by the business and the proximity of the bank. Only keep on hand the amount of cash you are prepared to lose. All banks maintain 24 hour deposit service and it takes only a few minutes to prepare a deposit.

If the stationery store in your neighbourhood does not have something resembling the daily cash sheet that we have used, check with other stores or have some made at your local printers. Remember, you will be using one every day so it does not take too long to go through a stack of four or five hundred.

2) ACCOUNTS RECEIVABLE LEDGER

If your business makes sales using accounts receivable, then you should have an accounts receivable ledger.

Each customer who charges is assigned a page and these are kept alphabetically. A sample of a page from the accounts receivable ledger is as follows:

EXHIBIT B

LEDGER

NAME Customer, John

ADDRESS 1604 Any Street S.W., Calgary T2K 000

PHONE 261-6284

REFERENCES Bank of Montreal, Main Branch
Charge# 4523 000 000 000

DATE	REFERENCE	CHARGES	✓	CREDITS	✓	BALANCE
BALANCE FORWARDED						
Aug 13/84	INVOICE 7145	110.00				110.00
Aug 15/84	CREDIT NOTE #14			12.00		98.00
Aug 28/84	INVOICE 7216	342.00				440.00
Sept 16/84	CHEQUE # 924			200.00		240.00

Each customer's name, address and telephone number are clearly stated at the top of each page. What follows is a history of the credit business you have conducted with this customer. In this example, Mr. John Customer charged items totalling $110.00 on August 13th, returned $12.00 of the items to the shop on August 15th, charged additional items for $342.00 on August 28th and finally mailed us a cheque for $200.00 on September 16th leaving a balance of $240.00.

At a glance you can see what his balance is, what volumes of business he has charged as well as what sort of repayment time period is involved with this particular customer.

By merely adding up the balance on each card, you will be able to quickly determine how much is owed by those to whom you have given credit privileges.

The ledger cards should be kept in alphabetical order in a separate binder or tray. That way they are easy to find and control.

This type of ledger is available at most stationery stores and is inexpensive.

AGING OF ACCOUNTS RECEIVABLE

Each month the accounts receivable should be "aged". This means all the accounts are listed and the total balance owed by each customer is divided up into what amounts are current, over 30 days, over 60 days and over 90 days.

This form immediately shows you, the manager, which of your accounts receivable are overdue and will require extra collection efforts. If you are using a General Assignment of Book Debts as security for a line of credit from a chartered bank, it is almost a certainty that each month the bank will request an aged list of accounts receivable.

An example of such a list would be as follows:

Aged List of Accounts Receivable
as at September 20, 1984

Customer	Current	Over 30	Over 60	Over 90
Abigail Apple	16.50	64.18		
Bruce Biscuit		3,532.82		
John Customer	240.00			
Fly by Night Airlines				416.00
Semi-Slow Payers Ltd.		64.50	82.10	
Rubber Cheque Co.	10.40			61.10
TOTAL	266.90	3,661.50	82.10	477.10

This analysis shows two accounts in the over 90 day column which may result in being written off to bad debts. Additional credit should not be given to such accounts unless there are very extenuating circumstances.

Both you and your bank will be interested in which accounts are delinquent and what percentage of the total receivables they represent.

3) ACCOUNTS PAYABLE LEDGER

Each supplier of any goods or service that your business purchases from and agrees to pay at a later date would have a page in an Accounts Payable Ledger.

The accounts of this ledger will be filed alphabetically and an example of this is shown below:

EXHIBIT C

LEDGER

NAME ABC Company

ADDRESS 2120 Main Street, Edmonton, Alberta

PHONE 274-0000

REFERENCES Bob Brown - President
Lee Lewis - Salesman

DATE	REFERENCE	CHARGES	✓	CREDITS	✓	BALANCE
BALANCE FORWARDED						
AUG 13/84	INVOICE 6901	910.00				910.00
AUG 20/84	INVOICE 7214	312.00				1222.00
SEPT 12/84	CHEQUE #214			416.00		806.00

It is easy to see that in this particular example on August 13th $910.00 worth of material was purchased and on August 20th a further $312.00. On September 12th a cheque was sent in the amount of $416.00 leaving a balance of $806.00.

We can see at a glance how much is owed each individual company and as well see when the last cheque was sent to a particular supplier. Any disputes regarding payment of invoices, cheques mailed, etc., can be solved much quicker if such a system is maintained.

To find the total owing to all the creditors, add the various balances. This will give an accurate and up-to-date total if these ledger cards are posted on a daily basis.

Both accounts payable and accounts receivable ledgers must have three columns on each page — charges, payments and balance.

The pages in the ledgers can be loose leaf pages, cards or anything else. The only thing that is important is that it be orderly and contain sufficient information.

If you are not satisfied with the ledger pages used in these exhibits, then design your own or find one which better suits your needs.

4) THE SYNOPTIC LEDGER

There is a way the bookkeeping records can be combined or condensed in order that some control is exercised and you do not have ledgers in every drawer of your office.

In fact, most small businesses have but one journal, a "Synoptic", which is derived from Greek meaning "see everything at once." This ledger is sometimes called a Combined Journal or Combined Ledger.

The number of columns the ledger will have depends upon the scope of the business and how often the various types of transactions occur.

In the following example, a ledger using 28 columns is used. There are 14 columns on a page and the ledger is merely opened to double the columns. This type of ledger is available at most stationery stores at reasonable cost. Pages can easily be added thus the ledger will last for an indefinite period regardless of the number of entries made.

EXHIBIT 'D'

	1981		CHQ NO	CASH IN	CASH OUT	CASH BAL	BANK IN	BANK OUT	BANK BAL	SALES	SALES RETURNS	ACCOUNTS RECEIVABLE CHARGE	ACCOUNTS RECEIVABLE PAYMENT	ACCOUNTS RECEIVABLE BAL	ACCOUNTS PAYABLE CHARGE	ACCOUNTS PAYABLE PAYMENT	ACCOUNTS PAYABLE BAL	
1		BALANCE FORWARD				100.00			2118.64					4487.60			3471.19	1
2	AUG 13	DAILY CASH SHEET		550.00	551.00	100.00	426.00		2544.64	425.00	15.00	110.00	240.00	4357.60			3471.19	2
3	"	CASH OVER																3
4	"	ABC COMPANY													910.00		4381.19	4
5	"	SMITH AND CO.	47					712.00	1832.64							712.00	3669.19	5
6	"	STANLEY LANDLORD	48					500.00	1332.64									6
7	"	RECEIVER GENERAL	49					312.16	1020.48									7
8	"	EQUIPMENT SALES LTD	50					400.00	620.48									
9	"	LARRY JONES	51					146.26	474.22									
10	"	N.S.F. C. BOUNCING						21.65	452.57			21.65		4379.25				
11	"	N.S.F. I SEEYALATER						38.50	414.07									
12																		
13																		
14																		
15																		
16																		
17																		
18																		

Line 1. Since we are assuming this is an existing business and not one starting up on this day, there are balances to be carried forward:

Cash on hand to start the day's business was	$ 100.00
Balance at the bank was	2,118.64
Total accounts receivable were	4,487.60
Total accounts payable were	3,471.19

NOTE: The columns for accounts payable and accounts receivable act as a control for each of the ledgers containing the various accounts. In other words, if you added up all of the individual accounts in the receivable ledger it should total $4,487.60 and similarly the payables should total $3,471.19.

Line 2. All relevant numbers from the daily cash sheet are entered into the synoptic ledger each day. Check the example of the daily cash sheet on page 8 and you will readily see where the numbers on this line come from.

Line 3. Each day there may be cash over or cash short. Again this number comes from the daily cash sheet and is either treated as other income or miscellaneous expense.

Line 4. Goods were received from ABC Company totalling $910. Accounts payable increased $910 as did the individual page for ABC Company in the accounts payable ledger. A further entry of $910 is made under the purchases column to signify it was a purchase and not an expense.

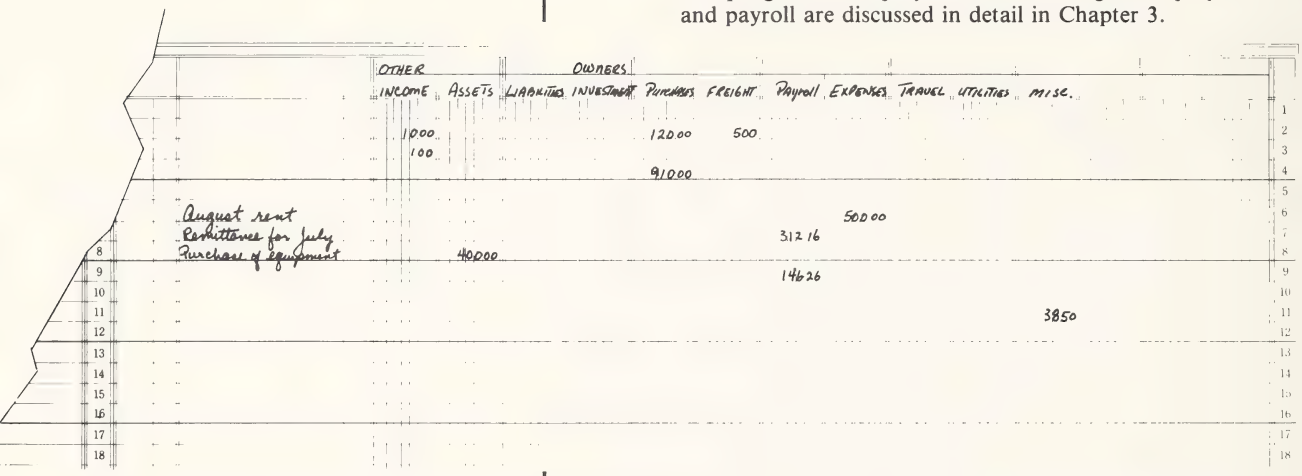
Line 5. Cheque #47 in the amount of $712 was sent to Smith and Company to pay for something which had been charged previously. A corresponding entry for the $712 payment would also be made on the Smith and Co. ledger card in the accounts payable ledger.

Line 6. Cheque #48 was given to Stanley Landlord to cover the August rent. A brief notation at the right of the ledger page outlines what the expense was about.

Line 7. Cheque #49 remitted the employees payroll deductions to the Receiver General. Payroll will be covered in detail in Chapter 3 of this booklet.

Line 8. Equipment in the amount of $400 was purchased and paid for from Equipment Sales Ltd.

Line 9. Cheque given to employee for week's wages. Employees and payroll are discussed in detail in Chapter 3.



This would conclude the entries for August 13th. The next business day the same procedure would be repeated.

1. Post from the daily cash sheet
2. Post invoices charged to supplier
3. Write up all cheques issued.

The daily cash sheet accounts for the movement of cash, both in and out. The synoptic journal accounts for all cheques issued plus items charged on accounts.

WILL YOUR BOOKS BALANCE?

The above procedure represents the more tedious aspect of bookkeeping. Few people actually look forward to posting entries in the various ledgers and so they tend to put it off. Make a habit of doing it each day, say every morning before you have coffee. If the bookkeeping is done daily it only takes a few minutes.

Just because you do not like doing it, does not mean you can put if off and eventually the problem will go away. Instead, the problem will get worse. The fact of the matter is that as you become more familiar with the record-keeping of your business you will become a better informed manager.

There is nothing else the books can do but balance if you write down every transaction as described above. Tips to ensure your books will balance are:

1) Transfer all the items from the Daily Cash Sheet
2) Post in Synoptic Ledger, the cash over or short
3) Post changes in accounts payable
4) Post all cheques written

Make little explanations where room permits on the ledger. This may help the accountant prepare the financial statements if a more detailed explanation is given.

The four "Balance" columns of cash, bank, accounts receivable and accounts payable should agree to actual counts.

Accountants traditionally have dealt in "debits" and "credits" and in so doing have brought confusion, mystery and acid indigestion into accounting. Do not concern yourself with such terminology. Make certain that each cheque is fully explained on the synoptic and that each daily cash sheet is properly posted and you cannot go far wrong.

BOOKKEEP DAILY

Balance each line—know where the money went or where it came from so that it never becomes a big job to find an error.

Stay on top of it, or, instead of being a useful management tool, it will become an uncontrollable inaccurate mess. If you do not have the time or the ability to do the bookkeeping, then other arrangements must be made. Professional bookkeeping services are available if you cannot do it yourself. Consult either the yellow pages or discuss the problem with your accountant to find an affordable and satisfactory solution.

PETTY CASH

There are those businesses that do not ordinarily deal in cash. These businesses tend to deal mostly with cheques or credit cards.

Occasionally cash is required for something such as postage stamps or another can of coffee. How then is this to be handled?

A cheque for some small amount say, $50.00 is made payable to Petty Cash. The actual money is then placed in a cash box and left in the care of a trusted individual for safekeeping. It is from this cash that minor amounts such as postage or coffee are paid. When the cash supply is running low replenish it to the amount of receipts on hand.

If you use Petty Cash to pay for something, always get a receipt. If no receipt is possible, make a notation of what the money was used for and place it in the cash box with other receipts.

Thus the cash and receipts in the cash box should always total to the amount of the petty cash float. Each time the cash is replenished the receipts are removed, grouped in the various categories and placed in an envelope, perhaps with the category totals written on the outside of the envelope.

In the synoptic ledger, the balancing entry for the cheque being written will be to miscellaneous expense.

NSF CHEQUES

Every now and then you will take a cheque from someone which is subsequently returned by the bank as being 'NSF'. When you are informed by your bank that such an item has been charged to your account you must make bookkeeping entries to take care of it.

If the customer who has written the NSF cheque operates as one of those who has a charge account, the entries on the synoptic ledger accounts would resemble those on Line 10 of the synoptic ledger found in Exhibit D. Imagine the regular charge account customer Mr. C. Bouncing has written a cheque for $21.65 which the bank has now returned as NSF. On the synoptic ledger take $21.65 out of the bank balance and show your accounts receivable as increasing by that amount. Since Mr. C. Bouncing is a regular charge account customer, pull his card from the accounts receivable

ledger and increase his balance by the $21.65. It might be wise to make notation in red ink beside the entry so that if he attempts to purchase again on credit you will be tipped off that his cheques are not to be trusted.

The entry is only slightly different if the NSF cheque writer is not one of your regular charge accounts. Examine Line 11 of the synoptic in Exhibit D. The bank has informed you that a cheque for $38.50 written by Mr. I. Seeyalater has been returned as NSF. Take the $38.50 out of the bank balance and show it as a miscellaneous expense. Should Mr. I. Seeyalater make his cheque good at some future time either by bringing in currency or informing you that this cheque can now be certified and redeposited, this extra cash will appear on that day's Daily Cash Sheet. A special notation would be made to indicate where this extra cash came from and the synoptic column for miscellaneous expense would show a negative mount of $38.50 indicating the expense has been recovered.

THE BANK RECONCILIATION

The bank balance as shown on the synoptic ledger can be verified each month when you receive your cancelled cheques from the bank.

Follow these simple steps each month and you will be reconciled with the bank. This means elimination of NSF cheques you didn't mean to write and leaving credit balances in current accounts when the funds should be sent to interest-charging creditors.

1. Last Balance as per bank		xxxxx
Add: Deposits made since	xxx	
	xxx	
	xxx	
	xxx	
Sub Total		xxxxx
Less: Outstanding cheques		
	xxx	
	xx	
	x	
	xxx	
Reconciled Balance		

Chapter Three

Payroll

All but the very smallest of businesses will, at least from time to time, employ persons other than the owners.

These employees will expect to be paid and it is up to you as their employer not only to keep track of how much you pay them but also to hold back and remit part of their salaries directly to the government to cover Income Taxes, Canada Pension Plan and Unemployment Insurance.

Every employer is required by law to remit these amounts to Revenue Canada along with the employer contributions no later than the 15th day of the month following the month in which the employee received his remuneration. The simplest method of keeping track of your employees is to purchase a book in which the hours they work plus the applicable deductions can be recorded.

NEW EMPLOYERS

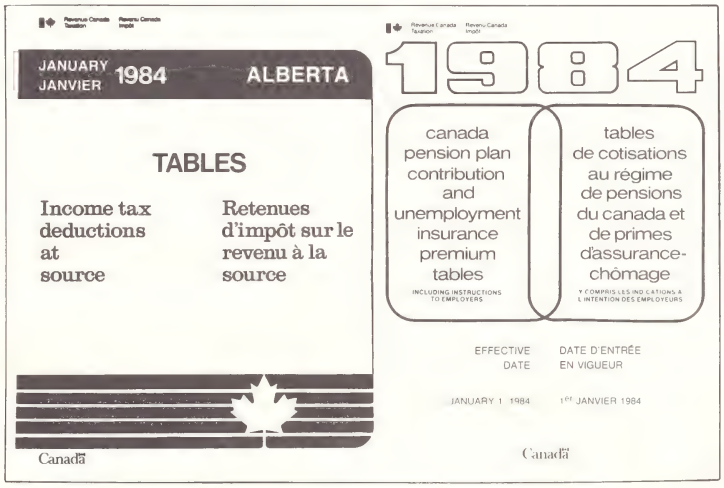
Most employees are paid on an hourly basis and it is common practice for them to receive their pay weekly, bi-weekly or semi-monthly. The proper type of book for recording hours worked for the pay period is available at any of the major stationery stores. If you are an employer for the first time you should immediately contact Revenue Canada and request the necessary forms. In Edmonton and Calgary the addresses are:

Edmonton
9820 - 107 Street
T5K 1E8
Phone 420-3510

Calgary
220 - 4 Avenue S.E.
T2G 0L1
Phone 231-4101

Request tables which will determine the amount of contribution to deduct for each employee's salary, wage or other remuneration.

The tables for 1984 were enclosed in booklets which looked as follows:



HOW IT WORKS

Periodically, the tables are up-dated to reflect changes in taxation rates and once you are registered the up-dated booklets will be mailed directly to you.

Imagine that you have three employees, one of whom works only part-time. You have decided to pay the staff each week and accordingly have purchased a payroll book for weekly pay periods.

An example of a typical week might look as shown in Exhibit "E".

EXHIBIT "E"

TIME, WEEK ENDING August 14 1984

NO	NAMES	S	M	T	W	T	F	S	TOTAL TIME	RATE	TOTAL AMOUNT	INCOME TAX	BONDS	UNEMPLOYMENT INSURANCE	LIFE INSURANCE	WORKMENS COMPENSATION	CANADA PENSION PLAN	ADVANCES PAID ON ACCOUNT	TOTAL DEDUCTIONS	BALANCE DUE	REMARKS RECEIVED PAYMENT
	Jones, Larry		7	7	7	7	8		36	4.50	162.00	6.00		3.73			2.29		12.02	149.98	
	Peters, Robert		8	8	8	8	8		40	5.00	200.00	16.15		4.60			2.98		23.73	176.27	
	Smith, Mary			4	4	4			12	4.00	48.00			1.10			.24		1.34	46.66	

The hours for each of the three employees are totalled and their gross pay is determined by multiplying the hours by the rate of pay. In the case of employee Larry Jones, the gross pay for the week is (36 hrs. x 4.50) = $162.00.

Turning to the source of deduction tables for 1983, it can quickly be determined that for a weekly wage of $162.00, the following deductions are made:

Canada Pension Plan	$2.29
Unemployment Insurance	3.73
	6.02

Income tax deductions are on taxable income only, not on gross income. In this example:

Gross Income	$162.00
Minus Canada Pension Plan	2.29
Minus Unemployment Insurance	3.73
Taxable Income	$155.98

Now by looking at the table for income tax deductions on a weekly basis where the income is $155.98, it can be seen that the income tax deduction should be $6.00. The deductions from Larry Jones' gross pay are therefore:

Canada Pension Plan	$ 2.29
Unemployment Insurance	3.73
Income Tax	6.00
	$12.02

Thus the cheque given to Larry Jones for $149.98 will represent the net amount of the gross ($162.00) minus the deductions ($12.02).

You must enclose with the employee's cheque, a payroll record, a copy of which is shown as Exhibit "F". These are available at any stationery store and give the employee a record of what deductions were made on his behalf.

EMPLOYER CONTRIBUTION

NEW REMITTERS AND EMPLOYER NUMBER

If you are a new employer or have not remitted deductions on behalf of your employees before, do not delay the remittance until you obtain an employer number. You should send a certified cheque or money order payable to the Receiver General for Canada to your District Taxation Office, with a letter on your business letterhead explaining that this is a new remittance. Indicate the pay period covered by the remittance, give the employer's exact name and address under which the account is to be kept, and specify the amounts applicable to Income Tax, Canada Pension Plan contributions and Unemployment Insurance premiums.

The remittance must be made by the 15th day of the month following the month in which the remuneration was paid to the employees.

When your remittance is acknowledged, a form PD20 "Employer Registration" will be sent to you to complete and return.

EXHIBIT "F"

PAYROLL RECORD

No. Period AUG. 18/84

NAME LARRY JONES

Wages	$ 162.00	
Overtime	$	
Holiday Pay	$	
	$	
TOTAL WAGES		$ 162.00
DEDUCTIONS		
INCOME TAX EXEMPT		
1. Company Pension	$	
2. Canada Pension Plan	$ 2.29	
3. Unemployment Ins.	$ 3.73	
TOTAL		$ 6.02
TAXABLE INCOME		$ 155.98
4. Income Tax	$ 6.00	
5. Hospitalization Ins.	$	
6. Savings Bonds	$	
7. Group Ins.	$	
8.	$	
9.	$	
TOTAL		$ 6.00
NET WAGES		$ 149.98

Cheque Number 61

REMITTANCE

HOW MUCH DO YOU REMIT EACH MONTH TO THE RECEIVER GENERAL FOR YOUR EMPLOYEES?

Before the 15th of the month following the month in which the deduction was made, it is your responsibility to remit certain amounts to the Receiver General:

1. All of the Income Tax, Unemployment Insurance and Canada Pension Plan contributions deducted from your employees

   PLUS

2. The employer must match the Canada Pension Plan contributions of his employees

   PLUS

3. The employer must pay 1.4 times the employees' Unemployment Insurance contributions. For example, if the total of all employees' contributions for a month was $90.72, the employer's contribution will be (1.4 x $90.72) which is $127.01.

EMPLOYMENT STANDARDS

Every person carrying on a business in Canada is required by law to keep records and books of accounts for Income Tax, Canada Pension Plan and Unemployment Insurance purposes. These records must include enough information to determine the correct contributions and premiums to deduct from your employees. The payroll record book will suffice.

It must be done, therefore, do it right and save yourself time and trouble.

The Employment Standards Branch of Alberta Labour is responsible for administering the employment standards provisions under the Employment Standards Act. Some of the more important sections include:

1. **Payroll Records.**
   Payroll records must be maintained at the place of business in Alberta. This information must contain all the details of employees and be retained for 3 years. Employees' wages cannot be less than legislation permits.

2. **Minimum Wages (as of May 1, 1981).**
   — $3.80 per hour if 18 years and older.

   — $3.65 if less than 18 years old.

   Employees employed for less than 3 hours must be paid for 3 hours at their minimum wages.

   — $3.30 per hour for students less than 18 years old working part-time outside of their normal school hours. Students must be paid for a minimum of two hours.

3. **Minimum Wage Deductions.**
   If room and board is provided to employees on minimum wage the employer can deduct only $1.25 for a single meal consumed and $1.60 per day for lodging. No other deductions such as accidental breakage, laundry, repairs to apparel, etc. are allowed.

4. **Hours of Work.**
   The hours of work in any one day shall be confined within a period of 12 hours, including breaks, as long as there is compensation for overtime if applicable. These limits may only be exceeded when a legitimate emergency exists, or where a permit has been issued from the Director of Employment Standards.

5. **Overtime.**
   Overtime is payable at not less than time and one-half the employee's regular rate of pay, and is payable on all hours worked in excess of 8 hours in a day and 44 hours in a week whichever is the greater. UNLESS: the employer and employee **agree in writing** that the employee be given time off with pay equal to the number of overtime hours worked. Time off in place of overtime pay shall be provided and taken at a time that would normally be a time of work for the employee within three months of having been worked.

6. **Rest Periods.**
   An employer shall allow an employee at least 24 consecutive hours of rest in each consecutive period of 7 days. For rest period changes, a business can contact the Employment Standards Branch, Department of Labour, Government of Alberta.

7. **Maternity Leave.**
   An employee who is pregnant and who has been employed by her employer for a period of at least 12 months is entitled to maternity leave without pay consisting of:

   a) 12 weeks immediately preceding the estimated date of delivery or such shorter period as the employee may request.

b) a period not exceeding six weeks immediately following the actual date of delivery.

An employee must advise her employer in writing two weeks before commencing maternity leave. The same provisions are applicable when returning to work. If complications occur, the period may be extended to nine weeks after delivery with a Doctor's certificate.

8. Disputes.

Disputes involving wages and entitlements that cannot be resolved by an Officer are taken before an "umpire" who is a Provincial Court Judge, whose adjudications of the case is final.

9. Statutory Holidays (General Holidays).

There are eight days in the year declared to be General Holidays. They are New Year's Day, Good Friday, Victoria Day, Dominion Day, Labour Day, Thanksgiving Day, Remembrance Day, and Christmas Day. Additional days in condition of employment or agreement are recognized.

Where an employee has worked thirty days in twelve months preceding the general holiday for an employer and the general holiday occurs on the employee's regular work day and the employee does not work, the employee shall be paid a regular day's wages.

If an employee is required to work on a general holiday, the daily wage is earned in addition to payment of one and one-half times the hours worked.

Alternatively, the employee may be given a normal working day off with pay in lieu thereof.

If a general holiday falls on a day that is not normally a working day for an employee, but the employee is required or scheduled to work, the employer shall pay one and one-half times the regular wage for each hour worked on that day.

Please note that general holiday pay in the construction and brush clearing industry are different. Check with the Employment Standards Branch of Alberta Labour.

10. Vacations with Pay.

Employees are entitled to a minimum of two weeks vacation with pay after 12 months employment:

— monthly paid employees receive vacations with pay based on their monthly salary.

— employees paid other than by the month are entitled to 4% of their regular wages for the 12 months of employment.

For lesser period of employment than twelve months, 4% of regular wages shall be paid on termination.

Additional information concerning the Employment Standards Act may be obtained by contacting:

EMPLOYMENT STANDARDS
INFORMATION AND COMPLAINTS

Edmonton Regional Office
Room 403
10339 - 124 Street
Edmonton, Alberta
T5N 3W1

Calgary Regional Office
Tower 3, Room 3300
1212 - 31 Avenue N.E.
Calgary, Alberta
T2E 7S8

HOW TO PAY YOURSELF

There is not much point in operating a business if you cannot enjoy the profit it makes. Generally speaking, the owner of the business is usually the last one paid, yet the hope of an excellent income is one of the major reasons why you start your own business.

A good business manager would never place an unrealistic management salary burden on a fledgling business, however we all have obligations and your salary or drawings must be included in the projected cash flows of the business.

If your business is incorporated, you too are an employee. Therefore, determine what your salary will be and then make the deductions for Canada Pension Plan, Unemployment Insurance and Income Tax, just as you do for all other employees.

As a shareholder in an incorporated business, it may be to your advantage to take part of this income in the form of dividends as opposed to salary. Before filing your annual income tax return you should discuss this with your accountant and have him/her determine what mix of salary and dividends will result in the greatest tax savings.

If your business operates as a proprietorship or partnership, you as the owner will still like to get paid. Any funds that you take out of the business are called a "drawing".

Income tax and Canada Pension Plan contributions are based upon profit before drawings. During the first year of operation no payments are remitted for either until a fiscal year end has been declared and an Income Statement prepared.

During subsequent years Revenue Canada will expect monthly payments toward income tax and Canada Pension Plan. However, since there is no precedence to base payments for the first year, it is allowed to remain payment-free until the first income statement is prepared.

Chapter Four

General Information

ALBERTA HEALTH CARE INSURANCE

Other records that are required to be kept include Alberta Health Care and Workers' Compensation.

By provincial legislation, each employer who has five or more employees must have a group number. Under five employees the separate group is optional, however we would suggest you contact the nearest Alberta Health Care Insurance office as they prefer to have one of their counsellors speak directly with you.

Additional information may be obtained by contacting:

ALBERTA HEALTH CARE INSURANCE PLAN:

Edmonton
11759 Groat Road
Box 1360
T5J 2N3

Telephone Inquiries:
427-1432

Calgary
2nd Floor, Crowntrust Building
407 - 8 Avenue S.W.
T2P 1E5

Telephone Inquiries:
297-6411

THE WORKERS' COMPENSATION BOARD

Every business in Alberta must register with the Workers' Compensation Board. Assessment rates per $100 of payroll are levied and are payable by you, the employer. Check with the nearest Workers' Compensation Board office.

Edmonton
9912 - 107 Street
P.O. Box 2415
T5J 2S5
Telephone: 427-1100

Calgary
132 - 16 Avenue N.E.
T2E 1J5
Telephone: 297-3460

Red Deer
208 Centre 5010 Building
5010 - 43 Street
T4N 6H2
Telephone: 343-5111

Lethbridge
212 - 13 Street
T1J 2V4
Telephone: 329-5151

Grande Prairie
10022 - 102 Avenue
T8V 0Z7
Telephone: 539-2121

Medicine Hat
204 Chinook Place
623 - 4 Street S.E.
T1A 0L1
Telephone: 529-3511

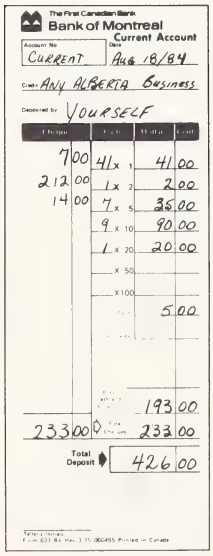
The Workers' Compensation Board has various rates for different types of business. For example, a business involved in the construction of houses would pay $4.50 per $100 of projected payroll. Let us assume that such a construction company anticipated its annual payroll at $100,000. It would therefore pay $4,500 to the Workers' Compensation Board. This would be paid in four installments, at the end of each quarter. If you open your business after April, you would have only three installments to pay, after July, only two and after October, only one. This would happen only during the first year as thereafter, you would operate on a calendar year and make payments each quarter.

What happens if actual payroll does not equal projected payroll? No problem. Adjustments can be made each quarter and should you have overpaid your account for next year, you will be credited. Workers' Compensation inspectors will periodically audit your payroll records.

GENERAL TIPS

- Remember that your accountant's time is your money. The more organized you are when you take your books to the accountant, the less time he will spend sorting things out and accordingly, will charge you less.

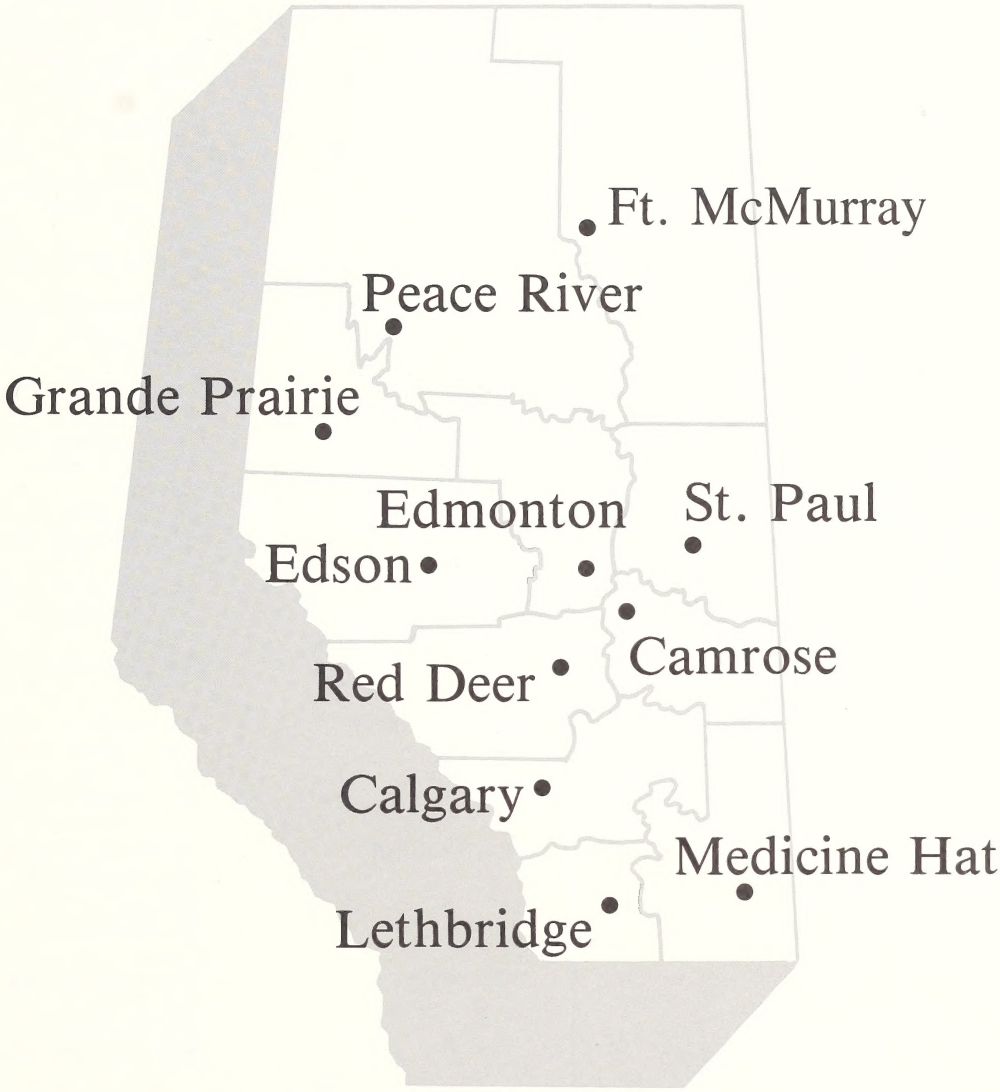
- Do not throw away your cancelled cheques. Usually your cancelled cheque is your only receipt that an account has been paid and if you destroy it you are destroying your proof of payment. Keep the cheques together with the bank statement which accompanied them. Do not sort the cheques numerically, alphabetically, or any other way. Leave them as they are.
- File your copy of your sales invoice either numerically or by customer, whichever is more convenient. From time to time these will be used to look up invoice totals, stock numbers or quantities ordered.
- Keep a file of all invoices and bills that are paid. This is usually done in order of the cheque number that paid the bill or filed according to supplier. By using one of these systems you will always be able to show which invoice was paid with which cheque.
- It is highly advisable that you perform a bank reconciliation each month as discussed in Chapter 2.
- Discuss your financial statements with your accountant. Make sure that you understand what the various numbers represent. Accountants sometimes are accused of not providing enough counselling to clients. Perhaps you can help this situation by asking the first question.
- Remember you are running a business and if you are to keep track of it's financial affairs, they must be separate from your personal affairs. Be sure to open a separate bank account for the business and use it only for business. Imagine the horrendous mess there will be if your personal bank payments, grocery bills, and clothing purchases are intermingled with payments to suppliers, employee wages and other business expenses through the same bank account. If you require funds, write yourself a cheque on the business account and deposit it in your personal account.
- It is easier to keep track of transactions if you pay by cheque. The cheque is easy to record and the cancelled cheque can act as a receipt.
- It is advisable to make detailed deposit slips and keep a copy for yourself. These act as a record of revenue or involvement by the owner. An example of a deposit slip is shown below:


The First Canadian Bank
Bank of Montreal
Current Account
Account No: CURRENT
Date: AUG 18/84
Credit: ANY ALBERTA Business
Deposited by: YOURSELF

Cheque	Cash	Dollar	Cent
7	00	41 x 1	41 00
212	00	1 x 2	2 00
14	00	7 x 5	35 00
		9 x 10	90 00
		1 x 20	20 00
		x 50	
		x 100	
			5 00
			193 00
233	00		233 00
		Total Deposit	426 00

- If you are starting a new business or have an existing business that is not as profitable as you had hoped it to be, don't be afraid to ask for help. A good place to start is the nearest office of the Small Business Assistance Branch of the Department of Tourism and Small Business. Experienced business analysts will consult with you and make recommendations as to how your business can better achieve the goals and profitability you hope for. Contact any Alberta Tourism and Small Business Office for assistance.

ALBERTA TOURISM AND SMALL BUSINESS OFFICES



Alberta Tourism and Small Business Offices

HEAD OFFICE EDMONTON	15th Floor Capitol Square 10065 Jasper Avenue T5J 0H4 Ph. 427-3685
CALGARY	5th Floor 999 - 8th St. S.W. T2R 1J5 Ph. 297-6284
CAMROSE	Provincial Building 4909 - 48 Street T4V 1L7 Ph. 679-1235
EDSON	Provincial Building P.O. Box 2490 T0E 0P0 Ph. 723-3341
FT. MCMURRAY	217 Provincial Building 9915 Franklin Avenue T9H 2K4 Ph. 743-7258
GRANDE PRAIRIE	1401 Provincial Building 10320 - 99 Street T8V 6J4 Ph. 539-2230 Effective April 2/84 — 538-5230
LETHBRIDGE	249 Provincial Building 200 - 5 Avenue S. T1J 4C7 Ph. 329-5414
MEDICINE HAT	217 Provincial Building 770 - 6 Street S.W. T1A 4J6 Ph. 529-3630
PEACE RIVER	101 Provincial Building Postal Bag 900-3 T0H 2X0 Ph. 624-6113/4
RED DEER	Provincial Building T4N 6K8 Ph. 343-5300 Effective April 16/84 — 340-5300
ST. PAUL	Provincial Building P.O. Box 1688 T0A 3A0 Ph. 645-6358

N.L.C. - B.N.C.
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